

# FISCAL NOTE

**Bill #:** SB0453                      **Title:** Revising types of property in classes nine and thirteen

**Primary Sponsor:** Keenan, B                      **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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<b>Fiscal Summary</b>	<b>FY 2004 <u>Difference</u></b>	<b>FY 2005 <u>Difference</u></b>
<b>Expenditures:</b>		
General Fund	(\$508,500)	\$1,100,000
<b>Revenue:</b>		
General Fund	\$4,482,000	\$4,482,000
State Special Revenue	\$280,600	\$280,000
<b>Net Impact on General Fund Balance:</b>	\$4,990,500	\$3,382,000

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| <input checked="" type="checkbox"/> Significant Local Gov. Impact<br><input type="checkbox"/> Included in the Executive Budget<br><input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Technical Concerns<br><input checked="" type="checkbox"/> Significant Long-Term Impacts<br><input checked="" type="checkbox"/> Needs to be included in HB 2 |
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## **Fiscal Analysis**

### ASSUMPTIONS:

#### Impact on Wholesale Electrical Generation Property

1. The proposal moves exempt wholesale electrical generation from class 13 to class 9. Class 13 property has a tax rate of 6% and class 9 has a tax rate of 12%.
2. It is estimated that the proposal would move \$729,500,000 in market value from class 13 to class 9. The affected property is located in ten counties.
3. Under current law, the taxable value on the affected property is \$43,770,000 (\$729,500,000 x .06).
4. Under the proposal, the taxable value on affected property is \$87,540,000 (\$729,500,000 x .12).
5. The estimated increase in taxable value is \$43,770,000 (\$87,540,000 - \$43,770,000). This increase in taxable value would affect property tax revenue beginning with FY2004.
6. For purposes of this fiscal note it is assumed that the market value of the impacted property for FY2004 and FY2005 will remain at FY2003 levels.
7. Under current law, average mill levies applied to the affected property are 95.56 for the state general fund (95 mills and 1.5 vo-tech mills), 6 mills for the university system, and 253.88 for local governments and local schools, for a total average mill levy of 355.44 mills.
8. Under current law, the affected property is expected to pay property taxes of \$4,183,000 (\$43,770,000 x .09556) to the state general fund, \$263,000 (\$43,770,000 x .006) to the university system, and

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\$11,112,000 (\$43,770,000 x .25388) to local governments and local schools, for a total expected property taxes of \$15,558,000.

9. Under the proposal, average mill levies applied to the affected property are 95.56 for the state general fund (95 mills and 1.5 vo-tech mills), 6 mills for the university system, and 225.05 for local governments and local schools, for a total average mill levy of 326.61 mills. Due to the mill levy limitation in 15-10-420, MCA, the average mill levy for local governments and local schools is 28.83 mills lower under the proposal due than under current law (see effect on county or other local revenues and expenditures below). It is assumed that the increase in taxable value will not result in a reduction of the statewide mill levies.
10. Under the proposal, the affected property is expected to pay property taxes of \$8,365,000 (\$87,540,000 x .09556) to the state general fund, \$525,000 (\$87,540,000 x .006) to the university system, and \$19,701,000 (\$43,770,000 x .22505) to local governments and local schools, for a total expected property taxes of \$28,591,000.

### Impact on Class 12 Property

11. The tax rate for class 12 property (railroads and airlines) is a weighted average of the tax rates of class 4 commercial property, and classes 7, 8, 9, and 13 property. The tax rate for class 12 property will be impacted by the changes in market value and taxable value caused by SB453. It is estimated that the tax rate for class 12 property would increase from 4.02% to 4.29%. This is an increase in the tax rate of 6.7%. The corresponding increase of 6.7% in the taxable value of class 12 property is an increase of \$3,100,000. This would increase property tax revenue for the state general fund by \$300,000 (\$3,100,000 x .09556) and increase property tax revenue for the university system by \$18,600 (\$3,100,000 x .006). For purposes of this fiscal note it is assumed that the market value of the impacted property for FY2004 and FY2005 will remain at FY2003 levels.

### Impact on Property Taxes

12. The table below summarizes the impact of the proposal on property taxes paid to the state.

### **Office of Public Instruction – public school support**

13. SB 453 increases the taxable valuation of 32 school districts in tax year 2003 and beyond. The BASE budget levies for these school districts would be lower in FY2004 under SB 453 than they would be under current law. As a result there will be a savings of \$508,500 in the state general fund cost for guaranteed tax base (GTB) aid in FY04.
14. In FY05, the increase in the statewide taxable valuation will be included in the statewide GTB ratio. As a result, the GTB subsidies per mill for the majority of school districts will be adjusted upward. The state general fund cost for GTB aid in FY05 is projected to increase by \$1.1 million.

Impact of Property Taxes Paid to the State						
	Impact in FY04			Impact in FY05		
	Current Law	Proposed Law	Change	Current Law	Proposed Law	Change
Class 13 Affected Property						
State General Fund	\$ 4,183,000	\$ 8,365,000	\$ 4,182,000	\$ 4,183,000	\$ 8,365,000	\$ 4,182,000
University System	263,000	525,000	262,000	263,000	525,000	262,000
Class 13 Subtotal	\$ 4,446,000	\$ 8,890,000	\$ 4,444,000	\$ 4,446,000	\$ 8,890,000	\$ 4,444,000
Class 12 Railroad and Airline						
State General Fund	\$ 4,461,551	\$ 4,761,551	\$ 300,000	\$ 4,461,551	\$ 4,761,551	\$ 300,000
University System	280,130	298,730	18,600	280,130	298,730	18,600
Class 12 Subtotal	\$ 4,741,681	\$ 5,060,281	\$ 318,600	\$ 4,741,681	\$ 5,060,281	\$ 318,600
Statewide						
State General Fund	\$ 8,644,551	\$ 13,126,551	\$ 4,482,000	\$ 8,644,551	\$ 13,126,551	\$ 4,482,000
University System	543,130	823,730	280,600	543,130	823,730	280,600
Statewide Total	\$ 9,187,681	\$ 13,950,281	\$ 4,762,600	\$ 9,187,681	\$ 13,950,281	\$ 4,762,600

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<u>FISCAL IMPACT:</u>	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
<u>Expenditures:</u>		
Transfers	(\$508,500)	\$1,100,000
<u>Funding of Expenditures:</u>		
General Fund (01)	(\$508,500)	\$1,100,000
<u>Revenues:</u>		
General Fund (01)	\$4,482,000	\$4,482,000
State Special (02) 6-mill University	280,600	280,600
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$4,990,500	\$3,382,000
State Special (02) 6-mill University	280,600	280,600

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. The average mill levy for local governments and local schools is lower under the proposal due to the mill levy limitation under 15-10-420. Since the increase in taxable value does not qualify as newly taxable property, 15-10-420, MCA prevents local governments (counties and cities) from reaping a windfall from the increase in taxable value. It is estimated that the affected property would pay an increase of \$3,300,000 in property taxes to counties and cities. Under 15-10-420, MCA, this would not be new property tax revenue for counties and cities. Instead, the result would be lower mill levies. The \$3,300,000 would be property tax savings for other property types in the affected counties and cities.
2. The mill levy limitation does not apply to local schools. Under the proposal, it is estimated that the affected property would pay an increase of \$5,300,000 in property taxes to local schools. If local schools choose to lower mill levies to offset the new revenue, the \$5,300,000 would be a property tax savings for other property types in the affected school districts.